



Cloud Growth Drives Pega Through \$1 Billion Milestone in 2020

- **Pega Cloud ACV grew more than 50% to \$267 million**
- **Total Backlog up 28% to over \$1 billion**
- **Total Revenue Exceeds \$1 billion for the first time**
- **2021 Revenue Guidance of \$1.25 billion**

CAMBRIDGE, Mass. — February 17, 2021 — [Pegasystems Inc.](#) (NASDAQ: PEGA), the software company that crushes business complexity, released its financial results for the fourth quarter and full-year 2020.

"The last year has made it abundantly clear that organizations need to accelerate their digital transformation to compete and thrive in a world that is constantly changing," said Alan Trefler, founder and CEO, Pegasystems. "We have never been better positioned to support this need with our scalable low code solutions."

"Pega Cloud ACV grew more than 50 percent year over year, increasing to \$267 million," said Ken Stillwell, CFO, Pegasystems. "And, at the same time, Pega Cloud gross margins expanded from 51 percent to 63 percent. We expect Pega Cloud revenue growth acceleration and gross margin expansion will be key contributors to drive future Pega profitability and growth."

Financial and performance metrics ⁽¹⁾

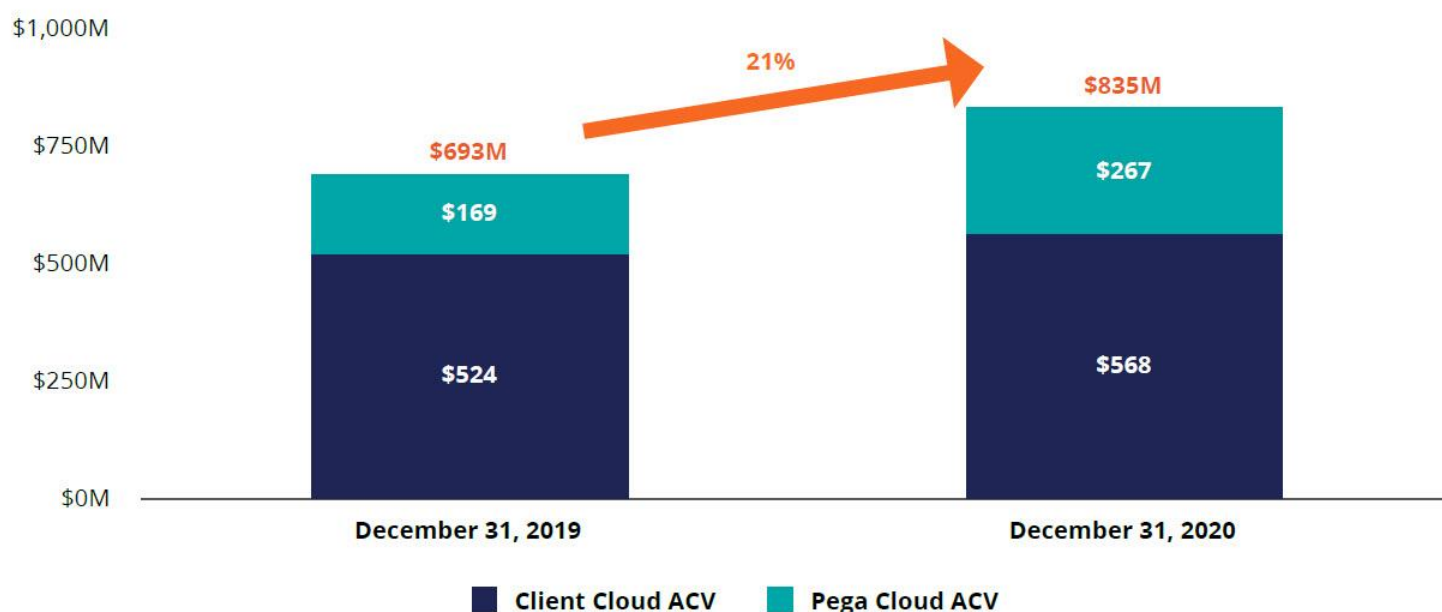
| | Three Months Ended December 31, | | | Year Ended December 31, | | |
|---|------------------------------------|------------|--------|----------------------------|-------------|--------|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| <i>(Dollars in thousands, except per share amounts)</i> | | | | | | |
| Total revenue | \$ 298,600 | \$ 276,542 | 8 % | \$ 1,017,517 | \$ 911,383 | 12 % |
| Net income (loss) - GAAP | \$ 4,006 | \$ 918 | 336 % | \$ (61,373) | \$ (90,433) | 32 % |
| Net income (loss) - Non-GAAP | \$ 15,513 | \$ 15,682 | (1)% | \$ (29,392) | \$ (35,082) | 16 % |
| Diluted earnings (loss) per share - GAAP | \$ 0.05 | \$ 0.01 | 400 % | \$ (0.76) | \$ (1.14) | 33 % |
| Diluted earnings (loss) per share - Non-GAAP | \$ 0.18 | \$ 0.19 | (5)% | \$ (0.37) | \$ (0.44) | 16 % |

(1) A reconciliation of our Non-GAAP and GAAP measures is at the end of this release.

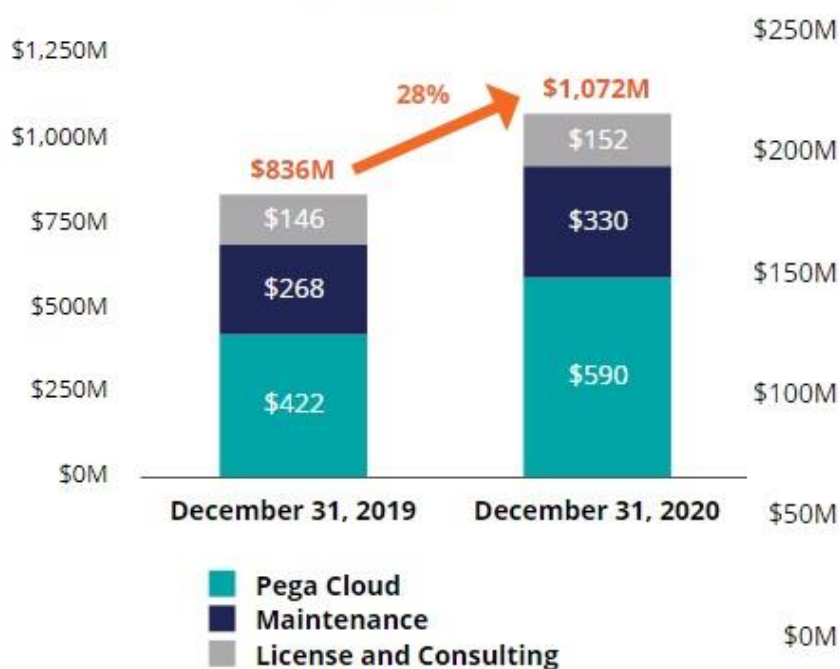
| | Three Months Ended December 31, | | | Year Ended December 31, | | | | | | | | |
|-----------------------------------|------------------------------------|--------------|-------------------|----------------------------|------------------|------------|--------------------|--------------|-------------------|--------------|-------------------|-------------|
| | 2020 | 2019 | Change | 2020 | 2019 | Change | | | | | | |
| <i>(Dollars in thousands)</i> | | | | | | | | | | | | |
| Pega Cloud | \$ 61,188 | 20 % | \$ 39,136 | 14 % | \$ 22,052 | 56 % | \$ 208,268 | 20 % | \$ 133,746 | 15 % | \$ 74,522 | 56 % |
| Maintenance | 76,122 | 26 % | 73,174 | 27 % | 2,948 | 4 % | 296,709 | 30 % | 280,580 | 30 % | 16,129 | 6 % |
| Term license | 95,897 | 32 % | 77,176 | 28 % | 18,721 | 24 % | 266,352 | 26 % | 199,433 | 22 % | 66,919 | 34 % |
| Subscription ⁽²⁾ | 233,207 | 78 % | 189,486 | 69 % | 43,721 | 23 % | 771,329 | 76 % | 613,759 | 67 % | 157,570 | 26 % |
| Perpetual license | 11,990 | 4 % | 36,729 | 13 % | (24,739) | (67)% | 28,558 | 3 % | 80,015 | 9 % | (51,457) | (64)% |
| Consulting | 53,403 | 18 % | 50,327 | 18 % | 3,076 | 6 % | 217,630 | 21 % | 217,609 | 24 % | 21 | — % |
| Total revenue | \$ 298,600 | 100 % | \$ 276,542 | 100 % | \$ 22,058 | 8 % | \$1,017,517 | 100 % | \$ 911,383 | 100 % | \$ 106,134 | 12 % |

(2) Reflects client arrangements subject to renewal (Pega Cloud, maintenance, and term license).

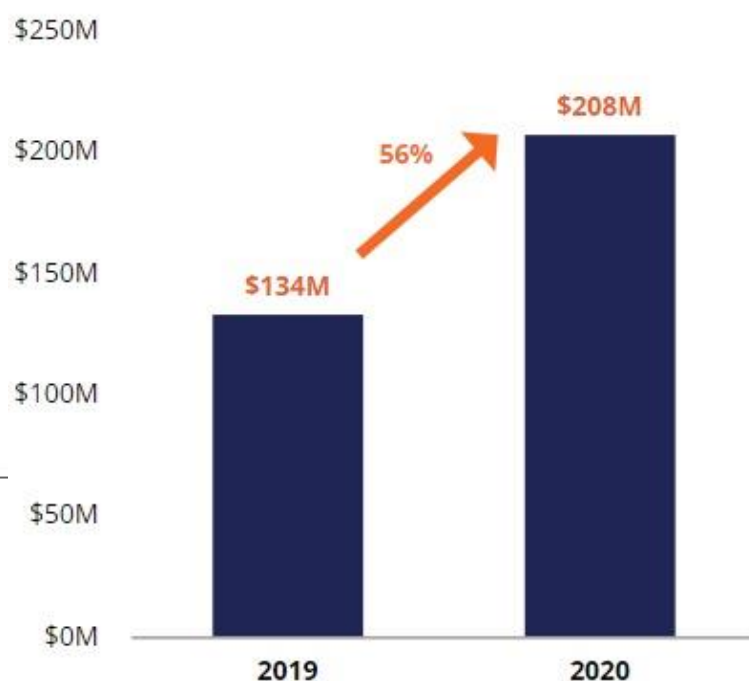
ACV



Backlog



Pega Cloud Revenue



Note: See the schedules at the end of this release for additional information.

2021 Guidance

As of February 17, 2021, we are providing the following guidance:

| | Year Ended December 31, 2021 | |
|-----------------------------|------------------------------|-------------------------|
| | GAAP | Non-GAAP ⁽¹⁾ |
| Revenue | \$ 1,250 | \$ 1,250 |
| Net (loss) income | \$ (115.2) | \$ 21.5 |
| Net (loss) income per share | \$ (1.44) | \$ 0.25 |

(1) A reconciliation of our GAAP and Non-GAAP guidance is contained in the financial schedules at the end of this release.

Quarterly conference call

We will conduct a conference call and audio-only webcast at 5:00 p.m. EST on February 17, 2021.

Members of the public and investors may join the call and participate in the question and answer session by dialing 1-866-548-4713 (domestic), 1-323-794-2093 (international), or via [webcast \(http://public.viavid.com/index.php?id=143063\)](http://public.viavid.com/index.php?id=143063) by logging onto www.pegacom.com at least five minutes before the event's broadcast and clicking on the webcast icon in the Investors section.

A replay of the call will also be available on www.pegacom.com by clicking the Earnings Calls link in the [Investors](#) section.

Discussion of Non-GAAP financial measures

We believe that supplementary non-GAAP financial measures provide useful information to allow investors to understand our core operating results and future prospects, without the effect of often-one-time charges and other items outside our normal operations, consistent with how management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to or a substitute for results of operations prepared in accordance with U.S. GAAP.

A reconciliation of our Non-GAAP and GAAP measures is at the end of this release.

Forward-looking statements

In this press release, certain statements may be "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995.

Words such as expects, anticipates, intends, plans, believes, will, could, should, estimates, may, targets, strategies, projects, forecasts, guidance, likely, and usually, or variations of such words and other similar expressions identify forward-looking statements, which are based on current expectations and assumptions.

These forward-looking statements deal with future events and are subject to various risks and uncertainties that are difficult to predict, including, but not limited to, statements about:

- our future financial performance and business plans;
- the adequacy of our liquidity and capital resources;
- the continued payment of quarterly dividends;
- the timing of revenue recognition;
- management of our transition to a more subscription-based business model;
- variation in demand for our products and services, including among clients in the public sector;
- the impact of actual or threatened public health emergencies, such as the Coronavirus (COVID-19);
- reliance on third-party service providers;
- compliance with our debt obligations and debt covenants;
- the potential impact of our convertible senior notes and related Capped Call Transactions;
- reliance on key personnel;
- the relocation of our corporate headquarters;
- the continued uncertainties in the global economy;
- foreign currency exchange rates;
- the potential legal and financial liabilities and reputation damage due to cyber-attacks;
- security breaches and security flaws;
- our ability to protect our intellectual property rights and costs associated with defending such rights;

- our client retention rate;
- management of our growth.

These risks and others that may cause actual results to differ materially from those expressed in such forward-looking statements are described further in Part I of our Annual Report on Form 10-K for the year ended December 31, 2020, and other filings we make with the U.S. Securities and Exchange Commission (“SEC”). Except as required by applicable law, we do not undertake and expressly disclaim any obligation to publicly update or revise these forward-looking statements whether as the result of new information, future events, or otherwise.

The forward-looking statements contained in this press release represent our views as of February 17, 2021.

About Pegasystems

Pega delivers innovative software that crushes business complexity so our clients can make better decisions and get work done. We help the world's leading brands solve their biggest business challenges: maximizing customer lifetime value, streamlining customer service, and boosting operational efficiency. Pega technology is powered by real-time AI and intelligent automation, while our scalable architecture and low-code platform help enterprises adapt to rapid change and transform for tomorrow.

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PEGASYSTEMS INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|------------------------------------|----------------|----------------------------|--------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenue | | | | |
| Software license | \$ 107,887 | \$ 113,905 | \$ 294,910 | \$ 279,448 |
| Maintenance | 76,122 | 73,174 | 296,709 | 280,580 |
| Pega Cloud | 61,188 | 39,136 | 208,268 | 133,746 |
| Consulting | 53,403 | 50,327 | 217,630 | 217,609 |
| Total revenue | <u>298,600</u> | <u>276,542</u> | <u>1,017,517</u> | <u>911,383</u> |
| Cost of revenue | | | | |
| Software license | 574 | 674 | 2,928 | 3,656 |
| Maintenance | 5,666 | 6,341 | 22,311 | 25,656 |
| Pega Cloud | 20,337 | 18,059 | 76,575 | 65,828 |
| Consulting | 50,318 | 52,533 | 209,099 | 214,882 |
| Total cost of revenue | <u>76,895</u> | <u>77,607</u> | <u>310,913</u> | <u>310,022</u> |
| Gross profit | 221,705 | 198,935 | 706,604 | 601,361 |
| Operating expenses | | | | |
| Selling and marketing | 150,009 | 133,395 | 545,693 | 474,459 |
| Research and development | 59,366 | 52,408 | 236,986 | 205,210 |
| General and administrative | 18,260 | 14,877 | 67,452 | 56,570 |
| Total operating expenses | <u>227,635</u> | <u>200,680</u> | <u>850,131</u> | <u>736,239</u> |
| (Loss) from operations | (5,930) | (1,745) | (143,527) | (134,878) |
| Foreign currency transaction gain (loss) | 1,159 | 1,242 | 3,704 | (2,335) |
| Interest income | 131 | 129 | 1,223 | 2,020 |
| Interest expense | (5,565) | (144) | (19,356) | (212) |
| Gain on capped call transactions | 11,881 | — | 31,697 | — |
| Other (loss) income, net | (4) | 181 | 1,370 | 559 |
| Income (loss) before (benefit from) income taxes | 1,672 | (337) | (124,889) | (134,846) |
| (Benefit from) income taxes | (2,334) | (1,255) | (63,516) | (44,413) |
| Net income (loss) | <u>\$ 4,006</u> | <u>\$ 918</u> | <u>\$ (61,373)</u> | <u>\$ (90,433)</u> |
| Earnings (loss) per share | | | | |
| Basic | \$ 0.05 | \$ 0.01 | \$ (0.76) | \$ (1.14) |
| Diluted | \$ 0.05 | \$ 0.01 | \$ (0.76) | \$ (1.14) |
| Weighted-average number of common shares outstanding | | | | |
| Basic | 80,770 | 79,430 | 80,336 | 79,055 |
| Diluted | 86,080 | 83,624 | 80,336 | 79,055 |

PEGASYSTEMS INC.

UNAUDITED RECONCILIATION OF SELECTED GAAP MEASURES TO NON-GAAP MEASURES ⁽¹⁾

(in thousands, except percentages and per share amounts)

| | Three Months Ended December 31, | | | Year Ended December 31, | | |
|--|------------------------------------|------------------|--------|----------------------------|--------------------|--------|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Net income (loss) - GAAP | \$ 4,006 | \$ 918 | 336 % | \$ (61,373) | \$ (90,433) | 32 % |
| Stock-based compensation ⁽²⁾ | 26,313 | 20,666 | | 103,068 | 80,909 | |
| Capped call transactions | (11,881) | — | | (31,697) | — | |
| Convertible debt | 4,408 | — | | 14,813 | — | |
| Amortization of intangible assets | 919 | 1,018 | | 3,970 | 6,625 | |
| Foreign currency transaction (gain) loss | (1,159) | (1,242) | | (3,704) | 2,335 | |
| Other | (384) | — | | 757 | — | |
| Income tax effects ⁽³⁾ | (6,709) | (5,678) | | (55,226) | (34,518) | |
| Net income (loss) - Non-GAAP | \$ 15,513 | \$ 15,682 | (1)% | \$ (29,392) | \$ (35,082) | 16 % |
| Diluted earnings (loss) per share - GAAP | \$ 0.05 | \$ 0.01 | 400 % | \$ (0.76) | \$ (1.14) | 33 % |
| Non-GAAP adjustments | 0.13 | 0.18 | | 0.39 | 0.70 | |
| Diluted earnings (loss) per share - Non-GAAP | \$ 0.18 | \$ 0.19 | (5)% | \$ (0.37) | \$ (0.44) | 16 % |
| Diluted weighted-average number of common shares outstanding - GAAP | 86,080 | 83,624 | 3 % | 80,336 | 79,055 | 2 % |
| Diluted weighted-average number of common shares outstanding - Non-GAAP | 86,080 | 83,624 | 3 % | 80,336 | 79,055 | 2 % |

(1) Our Non-GAAP financial measures reflect adjustments based on the following items:

- Stock-based compensation: We have excluded stock-based compensation from our Non-GAAP operating expenses and profitability measures. Although stock-based compensation is a key incentive offered to our employees, and we believe such compensation contributed to our revenues recognized during the periods presented and is expected to contribute to our future period revenues, we continue to evaluate our business performance excluding stock-based compensation.
- Capped call transactions: We have excluded gains and losses from our privately negotiated capped call transactions entered into concurrent with our issuance of the convertible senior notes to reduce potential dilution to our common stock upon any conversion of the convertible senior notes and/or offset any cash payments we are required to make in excess of the principal amount of convertible senior notes that may be converted, with such reduction and/or offset subject to a cap. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the types of events giving rise to them are not representative of our core business operations and ongoing operating performance.
- Convertible senior notes: In February 2020, we issued \$600 million of convertible senior notes, which bear interest at an annual fixed rate of 0.75%. A debt discount resulting from the conversion feature and debt issuance costs reduced the convertible debt instrument's carrying value. Debt discount and issuance costs are amortized as interest expense over the debt's life based upon an effective interest rate of 4.31%. We believe excluding these amounts provides a more useful comparison of our operational performance in different periods.
- Amortization of intangible assets: We have excluded the amortization of intangible assets from our Non-GAAP operating expenses and profitability measures. Amortization of intangible assets fluctuates in amount and frequency and is significantly affected by our acquisitions' timing and size. Investors should note that the use of intangible assets contributed to our revenues recognized during the periods presented and is expected to contribute to our future period revenues. Amortization of intangible assets is likely to recur in future periods.

- Foreign currency transaction (gain) loss: We have excluded foreign currency transaction gains and losses from our Non-GAAP profitability measures. Foreign currency transaction gains and losses fluctuate in amount and frequency and are significantly affected by foreign exchange market rates. Foreign currency transaction gains and losses are likely to recur in future periods.
- Other: We have excluded gains and losses on our venture investments, incremental fees incurred due to the cancellation of the live event portion of our annual PegaWorld conference due to the COVID-19 pandemic, and incremental expenses incurred from the integration of acquisitions. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the types of events giving rise to them are not representative of our core business operations and ongoing operating performance.

⁽²⁾ Stock-based compensation was:

| | Three Months Ended December 31, | | Year Ended December 31, | |
|----------------------------|------------------------------------|------------------|----------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| <i>(in thousands)</i> | | | | |
| Cost of revenue | \$ 5,160 | \$ 4,605 | \$ 20,796 | \$ 18,822 |
| Selling and marketing | 12,315 | 8,610 | 46,283 | 32,665 |
| Research and development | 5,819 | 4,948 | 22,885 | 18,938 |
| General and administrative | 3,019 | 2,503 | 13,104 | 10,484 |
| | <u>\$ 26,313</u> | <u>\$ 20,666</u> | <u>\$ 103,068</u> | <u>\$ 80,909</u> |
| Income tax benefit | \$ (5,171) | \$ (4,166) | \$ (20,464) | \$ (16,392) |

⁽³⁾ Effective income tax rates were:

| | Year Ended December 31, | |
|----------|----------------------------|------|
| | 2020 | 2019 |
| GAAP | 51 % | 33 % |
| Non-GAAP | 22 % | 22 % |

Our effective income tax rate under GAAP is subject to significant fluctuations due to various factors, including excess tax benefits generated by our stock-based compensation plans, tax credits for stock-based compensation awards to research and development employees, and unfavorable foreign stock-based compensation adjustments. We determine our Non-GAAP income tax rate by using applicable rates in taxing jurisdictions and assessing certain factors, including our historical and forecast earnings by jurisdiction, discrete items, and our ability to realize tax assets. We believe it is beneficial for our management to review our Non-GAAP results consistent with the effective income tax rate in our annual plan as established at the beginning of each year, given this tax rate volatility.

PEGASYSTEMS INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

| | December 31, 2020 | December 31, 2019 |
|---|--------------------------|--------------------------|
| Assets | | |
| Cash, cash equivalents, and marketable securities | \$ 465,168 | \$ 68,363 |
| Receivables (billed and unbilled) | 536,260 | 501,675 |
| Goodwill | 79,231 | 79,039 |
| Other assets | 523,603 | 335,735 |
| Total assets | <u>\$ 1,604,262</u> | <u>\$ 984,812</u> |
| Liabilities and stockholders' equity | | |
| Accrued expenses, including compensation and related expenses | \$ 182,273 | \$ 152,127 |
| Deferred revenue, current | 232,865 | 190,080 |
| Convertible senior notes, net | 518,203 | — |
| Other liabilities | 128,749 | 103,595 |
| Stockholders' equity | 542,172 | 539,010 |
| Total liabilities and stockholders' equity | <u>\$ 1,604,262</u> | <u>\$ 984,812</u> |

PEGASYSTEMS INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Year Ended December 31, | |
|--|------------------------------------|------------------|
| | 2020 | 2019 |
| Net (loss) | \$ (61,373) | \$ (90,433) |
| Adjustments to reconcile net (loss) to cash (used in) operating activities | | |
| Non-cash items | 93,795 | 99,251 |
| Change in operating assets and liabilities, net | (32,985) | (50,983) |
| Cash (used in) operating activities | (563) | (42,165) |
| Cash (used in) provided by investing activities | (321,683) | 70,074 |
| Cash provided by (used in) financing activities | 423,448 | (74,258) |
| Effect of exchange rate changes on cash and cash equivalents | 2,334 | 290 |
| Net increase (decrease) in cash and cash equivalents | 103,536 | (46,059) |
| Cash and cash equivalents, beginning of period | 68,363 | 114,422 |
| Cash and cash equivalents, end of period | <u>\$ 171,899</u> | <u>\$ 68,363</u> |

PEGASYSTEMS INC.
ANNUAL CONTRACT VALUE (“ACV”)
(in thousands, except percentages)

Annual contract value (“ACV”) ⁽¹⁾ - ACV, as reported, represents the annualized value of our active contracts as of the measurement date. The contract's total value is divided by its duration in years to calculate ACV for term license and Pega Cloud contracts. Maintenance revenue for the quarter then ended is multiplied by four to calculate ACV for maintenance. Client Cloud ACV is composed of maintenance ACV and ACV from term license contracts. ACV is a performance measure that we believe provides useful information to our management and investors, particularly during our Cloud Transition. Reported amounts have not been adjusted for changes in foreign exchange rates.

| | December 31, 2020 | December 31, 2019 | Change | |
|--------------|--------------------------|--------------------------|-------------------|-------------|
| Maintenance | \$ 304,488 | \$ 292,696 | \$ 11,792 | 4 % |
| Term | 264,346 | 231,267 | 33,079 | 14 % |
| Client Cloud | 568,834 | 523,963 | 44,871 | 9 % |
| Pega Cloud | 266,642 | 169,329 | 97,313 | 57 % |
| Total | <u>\$ 835,476</u> | <u>\$ 693,292</u> | <u>\$ 142,184</u> | <u>21 %</u> |

(1) Foreign currency contributed 1%-2% to ACV growth in 2020.

PEGASYSTEMS INC.
BACKLOG
(in thousands, except percentages)

Remaining performance obligations (“Backlog”) - Backlog represents contracted revenue that has not yet been recognized and includes deferred revenue and non-cancellable amounts expected to be invoiced and recognized as revenue in future periods.

| | December 31, 2020 | | | | | | |
|----------------------|--------------------------|---------------------|--------------------|-------------------|-------------------|---------------------|--------------|
| | Perpetual license | Term license | Maintenance | Pega Cloud | Consulting | Total | |
| 1 year or less | \$ 11,514 | \$ 105,920 | \$ 227,803 | \$ 248,223 | \$ 19,226 | \$ 612,686 | 57 % |
| 1-2 years | 395 | 7,962 | 54,509 | 193,064 | 346 | 256,276 | 24 % |
| 2-3 years | — | 4,928 | 28,320 | 104,542 | 851 | 138,641 | 13 % |
| Greater than 3 years | — | 4 | 19,283 | 44,308 | 1,189 | 64,784 | 6 % |
| | <u>\$ 11,909</u> | <u>\$ 118,814</u> | <u>\$ 329,915</u> | <u>\$ 590,137</u> | <u>\$ 21,612</u> | <u>\$ 1,072,387</u> | <u>100 %</u> |

Change in Backlog Since December 31, 2019

| | | | | | | |
|--|----------|----------|-----------|------------|------------|------------|
| | \$ 7,425 | \$ 1,981 | \$ 61,621 | \$ 167,967 | \$ (2,750) | \$ 236,244 |
| | 166 % | 2 % | 23 % | 40 % | (11)% | 28 % |

December 31, 2019

| | Perpetual license | Term license | Maintenance | Pega Cloud | Consulting | Total | |
|----------------------|--------------------------|---------------------|--------------------|-------------------|-------------------|-------------------|--------------|
| 1 year or less | \$ 2,305 | \$ 97,826 | \$ 206,882 | \$ 165,571 | \$ 20,798 | \$ 493,382 | 58 % |
| 1-2 years | 2,179 | 12,014 | 30,291 | 128,109 | 1,439 | 174,032 | 21 % |
| 2-3 years | — | 3,132 | 17,844 | 84,788 | 132 | 105,896 | 13 % |
| Greater than 3 years | — | 3,861 | 13,277 | 43,702 | 1,993 | 62,833 | 8 % |
| | <u>\$ 4,484</u> | <u>\$ 116,833</u> | <u>\$ 268,294</u> | <u>\$ 422,170</u> | <u>\$ 24,362</u> | <u>\$ 836,143</u> | <u>100 %</u> |

PEGASYSTEMS INC.
RECONCILIATION OF FORWARD-LOOKING GUIDANCE
(in millions, except per share amounts)

| | | Year Ended December 31, 2021 |
|--|-----------|-------------------------------------|
| Revenue (GAAP and Non-GAAP) | \$ | 1,250 |
| Net loss (GAAP) | \$ | (115.2) |
| Stock-based compensation | | 125.3 |
| Convertible debt | | 18.4 |
| Amortization of intangible assets | | 3.7 |
| Foreign currency transaction (gain) loss | | (2.0) |
| Income tax effects | | (8.7) |
| Net Income (Non-GAAP) | \$ | 21.5 |
| Diluted (loss) per share - GAAP | \$ | (1.44) |
| Non-GAAP adjustments | | 1.69 |
| Diluted earnings per share - Non-GAAP | \$ | 0.25 |
| Diluted weighted-average number of common shares outstanding - GAAP | | 80.0 |
| Incremental dilutive shares for Non-GAAP | | 5.0 |
| Diluted weighted-average number of common shares outstanding - Non-GAAP | | 85.0 |